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NASSER AND THE MIDDLE EAST SITUATION

(Advance Copy)

Submitted by the

DIRECTOR OF CENTRAL INTELLIGENCE

The following intelligence organizations participated in the preparation of this estimate: The Central Intelligence Agency and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and The Joint Staff.

Concurred in by the

INTELLIGENCE ADVISORY COMMITTEE

on 31 July 1956. Concurring were the Special Assistant, Intelligence, Department of State; the Assistant Chief of Staff, Intelligence, Department of the Army; the Director of Naval Intelligence; the Director of Intelligence, USAF; and the Deputy Director for Intelligence, The Joint Staff. The Atomic Energy Commission Representative to the IAC, and the Assistant Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction.

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CENTRAL INTELLIGENCE AGENCY

31 July 1956

SUBJECT: SNIE 30-3-56: NASSER AND THE MIDDLE EAST SITUATION

THE PROBLEM

To assess the implications of Egyptian nationalization of the Suez Canal Company and probable developments in the resultant situation.

CONCLUSIONS

A. By nationalization of the Suez Canal Company, President Nasser has for the time being greatly strengthened his position, not only as leader of Egypt, but also as the spokesman and symbol of Arab nationalism throughout the Middle East. He has won wild acclaim from the Egyptian population, warm support from the greater part of the Arab world, and approval from the USSR. This has happened, moreover, just as his policies had appeared to have suffered a humiliating reversal through the unexpected refusal of the US and UK, and seemingly of the USSR as well, to finance the Aswan High Dam project.

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D. It is not impossible for the Egyptians to run the canal with reasonable competence, although Nasser would almost certainly come to use control of the canal to advance his own policies. The primary significance of Nasser's move lies in its political and psychological aspects rather than in the threat it poses to canal operations. Nasser's action has strengthened anti-Western, anti-colonial, and nationalist trends throughout the area, and if successful, will encourage future moves toward early nationalization or other action against foreign-owned oil pipe lines and petroleum facilities.

C. The courses of action open to the West in this situation range from acquiescence with as good grace as possible, though recourse to diplomatic representations, legal action in international or other tribunals, appeals to the United Nations, and economic sanctions, to military operations against Egypt. The UK has already adopted drastic economic measures, freezing the blocked Egyptian sterling balances (about 110 million pounds) and all other Egyptian financial assets in the sterling area. These actions may seriously curtail Egyptian trade with the West, since nearly all of it is conducted in sterling. France has fully supported the UK.

D. The courses of action open to Nasser in countering Western measures short of military action include seizure of British and

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other Western assets in Egypt, harassment of shipping in the canal by delays and hindrances, or full closure of the canal to Western shipping. Major interference with canal shipping would not only reduce the canal revenues accruing to Egypt but would probably also arouse the active disfavor of a wide range of nations, including some of neutralist and anticolonialist feeling. It would also provide justification for possible forceful Western action to keep the canal open. Accordingly, Nasser is likely to avoid such interference except as an extreme measure in retaliation for Western actions.

(E. Both the UK and France on the one hand, and Nasser on the other, have already taken positions from which they are unlikely to retreat in the near future. The prospect is for a prolonged period of crisis, during which existing nationalist and anti-Western sentiment in the Arab states, and probably among neutralist anticolonial peoples, will probably be intensified.

F. The recent developments are markedly to the Soviet interest, opening as they do a wider gulf between Egypt and the West, between the Arab world and the West, and possibly among Western nations themselves as they try to agree on concerted

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countermeasures. The USSR will probably participate in any negotiated solution of the canal crisis, and thereby will expand its influence in the Middle East. The USSR will probably give Nasser support, both political and economic, in his resistance to Western pressures. Nasser would welcome such support. Although at the present time his interests appear to run parallel to those of the USSR, we still believe that Nasser intends to avoid Soviet domination and to refrain from a firm and permanent alignment with either side in the East-West struggle.

G. In the event of Western military action against Nasser, we believe that the USSR would make every effort to avoid direct involvement, but short of that would intensify its efforts to give aid to Nasser, including possible covert introduction of military advisers and specialists, and would also capitalize on this situation in the UN and in the Arab and neutralist countries.

H. Israel will view with satisfaction the widened rift between its principal Arab antagonist and the major Western Powers. It will probably appeal for greatly increased shipments of arms; such shipments would almost certainly lead to violent anti-Western reactions throughout the Arab world. We do not believe, however, that Israel will attack Egypt, at least during the early phases of

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this crisis. Nasser will probably feel it necessary to avoid conflict with Israel while he is engaged in his contest with greater powers. However, if Nasser emerges as the victor in the present crisis, he is likely to take an increasingly stiff attitude toward Israel.

I. It is possible that an international conference of the signatories to the 1863 convention and other interested parties might produce a formula recognizing nationalization of the canal company but protecting the rights of international transit, which would be acceptable to the West, the USSR, and other interested user countries. There would be many obstacles to achieving Egyptian adherence to any new accord involving international control, particularly in the light of Nasser's position that he would refuse to accept any measure of such control. However, it would be difficult for him to reject a solution if the Western Powers, the USSR, and Colombo Powers, and the major shipping powers agreed in urging it upon him, particularly if it fell within the framework of the 1863 convention.

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DISCUSSION

I. THE NATIONALIZATION OF THE SUEZ CANAL

1. President Nasser's nationalization of the Suez Canal represents -- for the moment at least -- a highly effective move to extricate himself from what appeared to be a humiliating setback in an otherwise extremely successful foreign policy. By accepting arms from the Soviet Bloc in September 1955, Nasser at one stroke elevated himself to a position of extraordinary prestige throughout the Arab world as well as at home. This, and a series of other moves, alienated the US and UK from Egypt without completely severing connections; and they signified that Nasser had accepted the support of the USSR without subjecting Egypt to Soviet domination. Subsequently it appeared to many in the world, and it must have appeared to Nasser himself, that the USSR and the Western powers were bidding against each other for his friendship. As the token of this competitive bidding, Nasser secured an offer from the US and UK to finance the Aswan High Dam project, and he either obtained, or at least gave the impression that he had obtained, a

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corresponding offer from the USSR. Thus he seemingly demonstrated the advantages to be gained for his own primarily Arab interests from playing both sides in the East-West conflict, and he caused some allies of the West to wonder if they had chosen the most profitable course.

(2. As things developed, however, the estrangement between Nasser and the Western powers grew until the US, followed by the UK, withdrew its offer of aid for the High Dam. At the same time it appeared that the USSR either had never clearly made an acceptable offer, or if it had done so had also withdrawn it. The project had been so publicized by Nasser abroad as to become a symbol of his prestige in the area; its abandonment would have been a severe blow to his position. To this situation he responded by a speech vigorously attacking the US and especially the UK as exponents of imperialism, and he announced the nationalizing of the Suez Canal, promising that the revenues from that enterprise would be used to finance the High Dam, and would be sufficient for that purpose. Nasser's announcement was greeted with enthusiasm in Egypt and throughout the Arab world. At least for the time being

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it has strengthened his position not only as leader of Egypt, but also as the spokesman and symbol of Arab nationalism throughout the Middle East.

3. We believe that the nationalization decision was taken on short notice. Although the Egyptian government had long been planning for eventual assumption of control over the canal when the company's concession expired in 1968, Nasser had given no prior indication of desire to take over the canal ahead of time, and in fact had specifically stated that he did not wish to do so. After the US-UK announcements, the Egyptians showed every sign of expecting that the USSR which had certainly displayed interest in financing the dam, would come to the rescue when the possibility of Western assistance disappeared.

4. In view of the canal company's status as a private organization incorporated within Egypt and operating within Egyptian territory and Nasser's proposal to recompense shareholders on the basis of Paris Bourse quotations just prior to his announcement, it must have appeared to the Egyptian government that seizure would be

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difficult to upset on legal grounds. Moreover, if Egypt should fulfill its international obligations in operating the canal, there would be little basis for legal action by the using powers. Although most of the liquid assets of the canal company are now outside Egyptian control, Nasser has already threatened to hold up compensation of shareholders unless these assets are made available to him. He has additional leverage by virtue of the fact that the British, who are principal shareholders, are also the principal users of the canal and thus have a strong interest in keeping it in operation. Now that British troops are no longer stationed in the canal zone -- the last contingents left only a few weeks ago -- the British cannot undertake military action to regain control of the canal except through outright invasion of Egyptian soil.

5. Meanwhile, nationalization could bring Nasser important advantages. Net annual revenues will probably remain far below the \$100 million cited by Nasser in his 26 July speech, even if he takes advantage of the leeway for an increase in tolls provided by the present operating agreements. Nevertheless, net revenues of \$40 or \$50 million would ease Egypt's financial

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position, and some work on the Aswan Dam might be undertaken. More importantly the psychological initiative temporarily lost by Nasser at the time of the US-UK announcements on the Aswan Dam has for the moment been triumphantly restored, both in Egypt and in the surrounding Arab states. The fact that he has been able to strike back on his own, without acceptance of Bloc assistance, further enhances his appeal.

6. Nationalization of the canal has brought an angry reaction from the UK and France, both of whom have formally protested the move; there have also been expressions of concern from other Western nations. The UK has already retaliated by stopping arms shipments to Egypt, and by freezing all Egyptian private and public assets under its control (including about 110 million pounds in sterling balances). France is cooperating in the canal company's refusal to release its French-held liquid assets to Egypt.

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7. British and French opposition arises in part from their status as owners of the canal company (the British government owns about 45 percent of the stock and French private investors practically all the ^{remainder} / and as major users of the canal itself or of products transported through it. The most important of these is oil, which in 1955 accounted for 63% of the tonnage through the canal; more than 60 percent of Middle East oil shipments, which now furnish about 90 percent of Western European requirements and are major revenue producers for the UK in particular, now go by canal rather than by pipeline. In particular, oil from Kuwait and Qatar, which is least likely to be affected by oil nationalization moves, is wholly dependent on tankers for lifting.

8. Even if the Egyptians were to recompense the stockholders and operate the canal in good faith, their seizure of the canal would pose a number of dangers for shippers and those dependent on products transported through the canal. It is uncertain whether Egypt will be able to run the canal efficiently

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or whether an Egyptian administration will expend the amount on canal improvements which the increasingly heavy traffic burden is making necessary. Egypt could raise tolls to something like twice their present level without violating present agreements binding the company. Direct administration of the canal, moreover, will facilitate Egyptian use of it as a political weapon. Egypt's control of the canal approaches has already enabled it to do this, as its prohibition of Israeli ships and its restriction of shipments to Israel have demonstrated. (With actual control of the administrative machinery Egypt will be in a position to impose delays and harassments against the ships of unfriendly or uncooperative powers of a sort difficult to present for action by the UN or the World Court.

9. The political and psychological impact of Egypt's move weighs far more heavily in British and French thinking than concern for the company's revenues or even the risks of interference with traffic. The British and French see nationalization of the

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Suez Canal as but another, and probably the gravest, in a long series of attacks on Western interests in the area -- the most notable being Iran's nationalization of the oil industry and Egypt's unilateral "abrogation" of the 1936 treaty with the UK in 1951. They are almost certainly convinced that if Nasser's move goes unchecked it will be followed by similar actions throughout the Middle East, and the position of Western oil interests, which the British in particular consider vital to their own survival, will be gravely jeopardized. Moreover, they recognize that successful nationalization of the canal will greatly increase Nasser's influence in the other Arab states and is thus likely to lead to a further erosion of Western prestige and an increased willingness on the part of these states to follow Egypt's lead in relations with the Bloc and the West. It is primarily for these reasons that the British and French are likely to demand the strongest measures, to prevent Nasser from "getting away with it."

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10. Reactions from other nations thus far have been less intense. The nationalization announcement was generally hailed throughout the Arab world, including Iraq. In Asia, the acceptance of Egypt's right to nationalize has been mingled with some expression of concern over the abruptness of the move and the possibility of adverse effects on trade links with the West; Ceylon's prime minister has suggested the possibility of a meeting of the Colombo Powers to discuss the matter. Early Dloc reactions have been favorable.

II. POSSIBLE EGYPTIAN COURSES OF ACTION

11. The immediate outlook is for an extremely critical period in which Egyptian moves will depend in great part on what actions are taken by interested outside powers -- including the UK, France, and the US, as well as the USSR and even Israel. Nasser is, however, not likely to make any major concessions because of Western diplomatic persuasion or Western efforts to secure legal

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redress through international law. Indeed, to defy such limited Western efforts would probably at least temporarily strengthen his position, since his actions could be made to appear as a struggle against Western imperialist conspiracy. By the same token, he is not likely to make major concessions because of Western economic sanctions against Egypt, a boycott of the canal, or the impounding of the Egyptian sterling assets in the UK, even though such moves would create critical problems for Egypt -- which is already short of foreign exchange and confronted with difficulties in selling its cotton. He probably believes he could count on assistance from the Bloc and the Saudis in such a situation.

12. If the UK and other Western Powers should attempt to enforce their demands by occupation or blockade, Nasser would probably attempt such military resistance as he could, meanwhile appealing to the UN. Although he himself would realize the hopelessness of military action by Egypt alone, he would feel

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compelled to make the gesture, hoping for assistance from the Bloc, and counting on the revulsion of Arab and neutralist opinion against the West to bring him further aid.

12A. It is possible that an international conference of the signatories to the 1888 convention and other interested parties might produce a formula recognizing nationalization of the canal company but protecting the rights of international transit, which would be acceptable to the West, the USSR, and other interested user countries. There would be many obstacles to achieving Egyptian adherence to any new accord involving international control, particularly in the light of Nasser's position that he would refuse to accept any measure of such control. However, it would be difficult for him to reject a solution if the Western powers, the USSR, the Colombo Powers, and the major shipping powers agreed in urging it upon him, particularly if it fell within the framework of the 1888 convention.

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Egyptian Operation of the Canal

13. Nasser initially reacted to the UK's freezing of Egyptian assets by threatening to close the canal to British shipping. At present, he is emphasizing Egypt's intention to operate the canal efficiently and to maintain it in good condition. However, he would take measures to prevent the passage of ships involved if he were confronted with a persistent refusal on the part of major users of the canal to pay tolls to Egypt.

14. If the West decides to accept Egyptian control of the canal, or makes only ineffective protests, Nasser is probably prepared to abide for some time by current rules and practices with respect to level of charges, freedom of transit, and the like. Having taken the big gamble in seizing control, he would probably prefer to avoid harassing measures against Western shipping interests, at least in the near future, lest such actions

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should serve as the final provocation calling forth violent countermeasures by the West. Moreover, he will be anxious to demonstrate the legitimacy of his action to other nations, particularly the neutralist states of south and southeast Asia.

15. In time however, if he felt his control of the canal to be secure, the temptation to exploit his position to gain increased revenue would probably become irresistible. Eventually, moreover, Nasser might come to use control of the canal for political purposes; for example, as part of a campaign against British interests in the Middle East.

Actions with respect to Other Western Interests Within Egypt

16. Whatever the outcome of the Suez controversy itself, the tensions engendered by that affair can only increase Nasser's already strong hostility toward Western influence in the Middle East. In almost any event, his campaign against Western interests in the area will be continued. The actions already taken by the British and French indicate that an intensified struggle is virtually certain to occur.

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17. Nasser may move to take over private Western interests in Egypt. Such action would be particularly likely as a form of reprisal in the event that sanctions by the Western Powers resulted in a form of economic warfare between the latter and Egypt.

Other Egyptian Actions

18. Nasser has for some time been clearly committed to the broad goal of undermining Western influence in the Middle East and Africa. The Nasser regime's active propaganda against the West, both within Egypt and in other areas of the Arab world and Africa, is virtually certain to continue. The Suez issue may increase its appeal among anti-Western and neutralist elements, especially if Western reaction to the canal seizure enables Nasser to appear either as a martyr to imperialism or as one who has successfully defied the West.

19. One important target of the Egyptian anti-Western campaign will continue to be Western oil interests in the Arab states. Nasser would probably like to see a nationalization of the oil

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industry throughout the Arab world, and in the longer run may be expected to encourage such a development. In the short run, however, a more promising opportunity for undermining the Western oil position would be to promote action by oil transit states aimed at weakening or terminating Western control over the oil pipelines from Iraq and Saudi Arabia to the Mediterranean. Such action might be particularly appealing to Nasser since the unsettled situation in the Suez canal increases the importance to the West of these pipelines. If Egypt seeks to bring about such action, its chief hope would be in Syria, where Egyptian influence is strong among important factions in the anti-Western and unstable government. Egypt also seeks to weaken the Western oil companies in the Middle East by promoting labor unrest and nationalist-led organizations among employees of the companies.

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20. Other Egyptian action against Western interests in the Arab states will continue to include political support for anti-Western nationalists in Syria and Jordan, encouragement of Saudi Arabia in its already prohibitive demands on the US as the price of renewal of the Dhahran Airfield. Nasser will continue his efforts to diminish US and UK influence in Libya and his campaign against France in North Africa. Nasser will also increase efforts to extend Egyptian influence in the Sudan. There is nothing new in this pattern of Egyptian action, which has been going on since Nasser emerged as the spokesman for nationalism in the area. The chief danger in the present situation, however, is that existing nationalist and anti-Western sentiment in these states may be intensified by sympathy for the Egyptian leader in his struggle over the canal issue. In such an event, Nasser's influence over other Arab governments may increase.

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21. Actions toward Israel. Nasser's hostility toward Israel will not be lessened by his current conflict with the Western Powers, and the Egyptian regime will continue to exploit the Israeli issue as an effective means of gaining sympathy and support in the Arab world. At least in the immediate crisis over the canal, Nasser will probably be anxious to avoid serious trouble with Israel, and is not likely to go out of his way to provide the Israelis with an excuse for military action against Egypt. However, if Nasser emerges as the victor in the present crisis he is likely to take an increasingly stiff attitude toward Israel.

III. THE ROLE OF THE USSR

22. The Soviet role in recent developments is obscure. There is strong evidence that the USSR did in fact offer to finance the foreign exchange requirements of the High Aswan Dam some months ago and that -- possibly with Soviet

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action on
Egypt took no / the offer in the expectation of getting the
money from the West. Since the unexpected withdrawal of
the US-UK aid offer, the record has been ambiguous, with
statements by Soviet officials in Egypt^{and Egyptian officials} that the aid offer still
stood being matched by statements of Foreign Minister
Shepilov and others that the USSR was willing to support other
development projects, leaving the implication that it was not
prepared to^{help} finance the dam.

23. It is possible that Nasser's decision to nationalize
the Suez Canal was taken in collusion with the USSR. We con-
sider this unlikely, though we believe that Nasser made his
decision with confidence that he would receive Soviet approval
and support.

24. The USSR will probably help Nasser in his political and
economic difficulties
/with the West, by such methods as diplomatic support in the
UN and elsewhere and economic assistance to alleviate the
effects of Western economic sanctions. It will almost certainly
continue to provide military aid, and help for industrial projects
and other enterprises of economic development, probably in-
cluding some assistance toward launching the High Dam project
if Nasser requests it.

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25. In the event of Western military action against Nasser, we believe that the USSR would make every effort to avoid direct involvement, but short of that would intensify its efforts to give aid to Nasser, including possible covert introduction of military advisers and specialists, and would also capitalize on this situation in the UN and in the Arab and neutralist countries.

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26. The USSR has recently made some efforts to cultivate better relations with Israel and certain Baghdad Pact members.

Although it will almost certainly take advantage of opportunities for widening the breach/at little cost to itself, it probably considers that rapid consolidation of an especially close and exclusive relationship with Egypt is not only unnecessary but actually undesirable at this time in view of the probable adverse effects on its freedom of maneuver. It will probably continue to avoid full endorsement of the Arab position on Palestine.

27. Nasser himself, unless involved in hostilities, will probably continue / to place important limitations on the political commitments he would willingly give to the Bloc. He probably believes that he can pursue indefinitely an "independent foreign policy" and that the present necessity of accepting heavy economic commitments to the Bloc is a temporary proposition which can be brought back into proper focus at a later date if he takes reasonable precautions. In so doing, Nasser probably overestimates ^{own unaided} his ability to retain

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genuine freedom of action. Should the situation so worsen as materially to increase his already great economic dependence on the Bloc he might find himself trapped. However, we believe that at least for some time to come Egypt and the Bloc will be linked by a ^{substantial} though by no means complete community of interest with respect to Middle East questions rather than by any more binding ties, and that both sides will continue to have important reservations about their mutual relationship.

(27a. The canal crisis has clearly opened to the USSR the opportunity of further expanding its influence in the Middle East, since a ^{negotiated} resolution of the crisis is likely to involve the approval and perhaps the participation of the USSR.

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IV. REACTIONS IN PRO-EGYPTIAN AND UNCOMMITTED ARAB STATES

28. The initial public reaction to Nasser's action in the pro-Egyptian and uncommitted Arab states has been highly favorable. His dramatic act of defiance has raised his standing in the Arab world to new heights. At least in the short run, the action will have an intoxicating effect on Arab nationalist sentiment similar to that engendered by the original Egyptian arms deal with the Soviet Bloc. In addition, certain Arab states may be encouraged, both by example and persuasion, to take similar

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set a high price for renewal of the agreement covering use of the US air base at Dhahran, and in the wake of Nasser's defiance of the Western Powers, it is unlikely that Saud will come down enough to meet present US terms. Failure to reach agreement concerning the air base would cause Saud seriously to consider obtaining Bloc arms, although he would prefer to obtain arms from the US or some other non-Soviet source. Meanwhile, Saudi Arabia (and Yemen) will be encouraged by Nasser's action to press territorial claims against the British and the British-supported sheikhdoms even more strongly.

30. At the same time, the Saudis will remain anxious to avoid such a deterioration in their relations with the US as would endanger their vital oil revenues from the Arabian American Oil Company (ARAMCO). While the Egyptian action in taking over the Canal Company will provide a powerful fillip to Arab inclinations to nationalize foreign owned assets, the Saudis are aware from the Iranian experience of the great difficulties of attempting to operate an oil industry in the face of concerted Western

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commercial opposition. Nationalization of the TAPLINE facilities (and raising rates) may be considered, but would probably not be undertaken if ARAMCO threatened to retaliate by cutting production. While an attempt to nationalize the oil industry as a whole in the next several years appears unlikely, the Egyptian action might encourage the Saudis to raise their royalty demands against the company. Even here they will probably proceed cautiously, however, and may counsel moderation should the Egyptians threaten to raise canal tolls to such an extent as to interfere with the flow of oil.

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31. Syria, Jordan, and Lebanon. Egypt's ally Syria will support Nasser's action. Under Nasser's influence, Syria might be encouraged to undertake nationalization of the oil pipelines traversing the country or, at least, seek to obtain larger revenues from the operating companies. Syria's actions will be determined in considerable measure by the orientation of its government. Conservative elements appear in recent weeks to have regained some strength, especially within the army.

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However, Nasser's coup is more likely to strengthen pro-Egyptian elements who would be inclined toward anti-Western moves. On balance, unless the Egyptians receive a set-back at Western hands, the chances of eventual actions against Western pipelines and other interests appear to be better than even.

32. The present weak Jordanian government is probably unwilling to jeopardize its British support and subsidy, but will temporize for fear of the public reaction to any pro-Western stand. It will be subject to strong internal pressures to give Egypt maximum diplomatic and propaganda support. Jordan will nevertheless probably continue seeking to avoid Egyptian domination. Should the Egyptians decide to oust the US economic aid mission, they might well urge other Arab states having such programs to follow a similar course. In such a case, Nasser's greatest chance of success would be in Jordan, where US aid has already been subject to severe nationalist attacks.

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33. The Lebanese government will probably adopt a non-committal attitude until it ascertains the degree of Egypt's success in defying the West. While presently engaged in a dispute with the Iraq Petroleum Company concerning its share of the pipeline revenues, Lebanon would prefer to avoid drastic actions against Western interests because of its own economic self-interest as a trading and financial center in the area. Lebanon will, however, find it increasingly difficult to resist being swept along in any general wave of anti-Western sentiment and activities which may follow Nasser's action.

34. Reactions to Western Retaliatory Measures. The reaction in the pro-Egyptian and uncommitted Arab states to strong measures against Nasser by the Western Powers would probably be sharp. Imposition of economic sanctions would probably arouse sympathy for Egypt and give further impetus to demands for anti-Western retaliatory measures. The likelihood of such effects would be increased in the event of intervention by Western military forces or a substantial

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increase in Western arms shipments to Israel and widespread attacks on western lives and property might take place. Should Nasser be forced to make compromises in order to reach a settlement there would at best be a grumbling acceptance by pro-Egyptian elements. Persons and groups friendly to the West would, however, be encouraged to assert themselves more openly. The Western position would accordingly be strengthened, but further actions to bolster the position of friendly nations would probably be required if the gains were not to be lost.

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V. REACTION OF TURKEY, IRAQ, AND THE PERSIAN GULF PRINCIPALITIES

35. The reaction in Turkey to Nasser's action has been unfavorable. Relations between the two countries have not been good in recent years and the present Turkish government would in all probability favor strong Western retaliatory measures against the Nasser regime. While there appears to be little the Turks can do to influence the situation directly, they would give moral support to Western countermeasures. On the other hand, Western

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failure to act would tend further to weaken Turkish faith in the UK -- already somewhat under a cloud because of the Cyprus issue -- as a firm partner in the Baghdad Pact.

36. The situation in Iraq is more complicated. The Iraqi press and public has responded favorably to Nasser's action but the Iraqi government has so far acted with greater reserve. In addition, some popular pressures may be generated for nationalization of the British-dominated Iraq Petroleum Company. The opposition is virtually impotent to force the pro-Western ruling group's hand, however, and in any case the pressures in this direction are not likely to be significantly greater than when Iran nationalized its oil industry, and hence should be containable. In the event Nasser successfully establishes his control of the canal, however, the anti-Western pressure on the ruling group in Iraq will be greatly increased.

37. Meanwhile, the Iraqi government will try to turn the West's attitude toward Nasser to their own advantage by privately urging increased Western pressure on Egypt and more sympathetic

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consideration of Iraqi arms needs. The government would regard strong Western measures against Nasser as a sign that their membership in the Baghdad Pact was not a mistake; Western inaction would further disillusion them. Considering the difficulties which they would face in effecting a physical take-over in Syria, the Iraqis would probably not seek to carry out this long-time ambition unless the Syrians threatened to take action with respect to the IPC pipeline which would jeopardize Iraqi oil revenues. The possibility of a British-inspired Iraqi move against Syria designed both to divert attention from Nasser and to fulfill Iraqi ambitions should not be entirely excluded.

38. There will probably be little immediate reaction to the moves involving Egypt in the oil producing sheikhdoms of Kuwait, Bahrain, and the smaller Persian Gulf entities which are under British protection. Nationalist elements will sympathize with Nasser, but anti-British actions -- except possibly on Bahrain -- will not immediately develop.

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VI. REACTIONS OF OTHER ASIAN STATES

39. In Iran reactions to the Nasser government's moves and to possible Western countermeasures will be mixed. As a member of the Baghdad Pact and on the basis of its own experience with oil nationalization, the Iranian government is apt to be skeptical of Nasser's move. It will furthermore be concerned over the possible effect on oil shipments through the canal. Nationalist elements which have long opposed the British will sympathize with Egypt.

40. India, Pakistan, and Ceylon will probably all feel some concern over the future status of the canal and the possible effect on their economies of higher tolls which the Nasser regime might seek to levy. At the same time, these three Commonwealth members will tend to share the feeling that Nasser has a right to take such action in Egypt's interest, however much some of them may disapprove his abrupt methods. The press and vocal public in these countries have already expressed sympathy for Egypt's position. Such Southeast Asian countries as Burma and Indonesia

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can be expected to give Egypt moral support as a member of the Bandung grouping. Their involvement will, however, be less direct. On the other hand, Japan, which relies heavily on overseas trade, is concerned over the effect on its commerce of a possible increase in canal tolls or any slowdown or closing of the waterway, and might support Western efforts to correct the situation. *

VII. ISRAELI REACTION TO THE SITUATION

(41. The predominant reaction of Israel to recent events has been one of satisfaction over the clear and sharp conflict which has emerged between the Western Powers and Israel's principal Arab enemy. Despite some concern lest Nasser increase his power by another success against the West, (and thereby also achieve the power permanently to block Israeli access to the Suez Canal) Israel almost certainly counts on being able to achieve a net benefit from the situation.

42. In general, Israel may be expected to pursue the line that the more trouble the Western Powers have with the Arab

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states, the greater should be their support to Israel. The most immediate objective of the Israelis will be to secure arms from the West, hoping that the Western Powers' resentment and disillusion with Nasser will cause them to revise their previous policies against arming Israel. Israel also probably feels that the opportunity has come to focus attention on its own transit rights in Suez and the Gulf of Aqaba, which Egypt has always denied it (with minor exceptions in the case of vessels of other nations carrying Israeli cargoes). Israel will probably seek to associate itself with any multilateral international action taken against Nasser on the canal issue, and will also press in the UN and with the Western Powers for implementation of the 1951 UN Security Council resolution calling on Egypt to permit the transit of Israeli shipping through the canal.

43. Israel would probably welcome Western military action in response to Nasser's seizure of the canal. The Israelis would probably estimate that determined Western military action would not only lead to Nasser's downfall, but would also very likely

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strike a severe blow at the potential for action of militantly anti-Israeli elements in Syria and Jordan. We believe that the chances are against Israel itself deliberately initiating war with Egypt, at least during the early phases of the present crisis. The danger of such action might materially increase if the Western Powers undertook military action -- in which case Israel might seek to join them; or if Western relations with Egypt deteriorated so drastically that Israel could feel reasonably confident of avoiding severe Western punitive measures as a result of attacking Egypt -- presumably with the aim of destroying the Egyptian forces and toppling Nasser. Short of such situations, Israel's military policy toward Egypt and its other Arab neighbors is likely to remain confined to a tough one of retaliation for border harassments and readiness to fight if border incidents expand into war.